

Draft Report for the Review of the Regulatory Frameworks for Stand- Alone Power Systems Priority 1

Energy Networks Australia response

5 February 2019

Overview

Energy Networks Australia welcomes this opportunity to provide a submission in response to the Draft Report for the Review of the regulatory frameworks for stand-alone power systems from the Australian Energy Market Commission (AEMC).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to almost every household and business in Australia.

Key messages

- Network businesses broadly support the majority of the AEMC's Draft Decision.
- Where appropriate, minimising changes to the existing frameworks and rules would support a smooth transition for customers to a Stand-Alone Power Systems (SAPS) framework.
- SAPS assets should be considered as in-front of the meter assets.
- Energy Networks Australia does not have a preferred model for SAPS provision.

1 Transition to DNSP-led SAPS

1.1 Efficiency pre-condition

ENA supports the AEMC's policy intent that DNSP's should be able to replace network assets in the most efficient manner possible, including through the use of SAPS. Using the RIT-D as a basis for the efficiency test provides for consistency with other elements of the framework, but many SAPS solutions are likely to not meet the cost threshold for a RIT-D.

Using some other evaluation tool in cases where the RIT-D is inapplicable may be a reasonable alternative as long as the evaluation criteria employed is principles-based. A principles-based criteria enables DNSP's to streamline the evaluation process and provide information to the competitive market in a timely manner. Specifically, ENA supports a simple, effective, non-onerous evaluation process which is fit for purpose relative to the size and scale of the potential solution. This would reduce the cost of implementing the evaluation tool while also providing potential SAPS customers with quicker fit-for-purpose solutions.

The AEMC's policy intent may also be achievable through other means which are easier to implement and may have the same outcomes. For example, the DAPR information provision process could be improved as a substitution for the proposed project evaluation requirements.

1.2 SAPS customer engagement strategy

ENA agrees with the AEMC's view that explicit informed consent would not be required to transition customers from grid-supply to SAPS-supply. As a substitute, DNSP's should undertake open, transparent and formal consultation with affected customers in a manner that is principles-based. This will allow DNSP's to customise the engagement they undertake (similar to regulatory determinations) while ensuring that each customer is informed and ready for a SAPS transition.

Information provision and constructive engagement with customers, especially early in the process, will be beneficial in ensuring that customers have a smooth transition to the SAPS framework.

ENA agrees with DNSP's publishing a SAPS customer engagement strategy which allows each DNSP to tailor their engagement to their customer's needs and with the proposed arrangements for a formal notice period, a request for submission and that DNSP's should have regard to customer comments.

1.3 Regulatory oversight role

The AER's existing compliance and enforcement capabilities are sufficient to monitor the development of the SAPS framework. An additional oversight role would add little to no value towards delivering customers more efficient outcomes.

1.4 Jurisdictional participation in the national framework

Allowing jurisdictions to opt-in to the national framework gives those jurisdictions time to amend their instruments in anticipation of the SAPS framework going live. ENA notes that customer benefits will be lost if jurisdictional ministers do not give notice to recognise the SAPS framework for some time, but the consequences of the SAPS framework being implemented prematurely where these jurisdictions are not yet ready may be even worse. For these reasons ENA agrees with the AEMC's assessment that a jurisdictional opt-in framework is appropriate.

1.5 Grid-connection pre-condition

As identified in our submission to the issues paper, there is limited merit in distributor-led off-grid solutions for new customers as these customers already face price signals to provide their own SAPS. However in some situations it is appropriate for the DNSP to fulfil their connection obligation by providing a SAPS. For example where a customer requests a grid connection because they want the associated regulatory protections but would more efficiently be served by a SAPS which offers similar protections.

ENA agrees with the AEMC's view that new connections should be allowed to pre-existing DNSP-led SAPS. For instance there may be situations where the SAPS is not located within a customer's premises but on the boundary of their property where it may be reasonably cheap to add another customer. This would make better use of existing DNSP assets and would lead to greater economic efficiencies over time. There

may be a number of available solutions to connect customers, in which case a principles-based framework would allow DNSP's to determine and implement the most efficient solution.

1.6 Right of reconnection

ENA agrees with the AEMC's approach to redefine the DNSP's network to include the DNSP's SAPS. This ensures that a formerly SAPS-provided customer's right of reconnection is to a SAPS and not the interconnected grid. This retains the efficiency benefits of supplying customers via a SAPS without the risk of those customers 'defaulting' back to the grid and incurring a cost-reflective connection charge which is likely to be significant.

2 SAPS service classification and the role of the DNSP

ENA agrees with the AEMC's view that the provision of SAPS by DNSP's can be achieved under the current regulatory framework. The discretion afforded to the AER in how it classifies distribution services should be sufficient to accommodate the different circumstances of potential SAPS customers and DNSP's provided the discretion is applied consistently. Providing certainty in how the regulatory framework will be interpreted and applied in common circumstances will lower costs and ensure that timely and efficient SAPS solutions can be delivered.

For DNSP's to continue to cross-subsidise SAPS customers, SAPS assets should be classified as standard control services. This allows the reduction in distribution costs from moving customers to a SAPS supply model to be shared amongst all customers.

Giving DNSP's the ability to choose how they provide distribution services will mean that the most efficient form of distribution service will be provided to customers. ENA agrees that SAPS customers will be provided with the same service as grid-connected customers, that being metered electricity supply, and as such we support the position of deeming SAPS assets as in-front of the meter assets.

It would be very beneficial if the AEMC clearly articulated its policy intent. This ensures that there is no ambiguity in how the rules will be interpreted and enforced by the AER. It would also provide direction to DNSP's on which common circumstances warrant exemptions and would aid the DNSP's decision making process.

3 The AEMC's proposed models

There are advantages and disadvantages of both the NEM consistency model and the integrated service delivery model. At this time, ENA does not have a preferred model for SAPS provision to customers as it is difficult to identify which will lead to the greatest customer benefit.

The largest factor influencing the choice of model is how many customers are likely to transition to a SAPS model of supply for their electricity. Although DNSP's have undertaken extensive analysis of their

networks to determine how many customers may be eligible for a SAPS, the underlying cost of SAPS technology in the future is likely to be cheaper than it is today, opening the feasibility of SAPS to more customers. The speed and extent of the cost reduction over time is unknown and as a result, the number of customers for which a transition to SAPS supply would be efficient is difficult to forecast.

Detailed below are what ENA considers are the key pros and cons of each model proposed by the AEMC.

3.1 NEM consistency model

Pros:

- The NEM consistency model is the simplest model and will facilitate the easiest transition to a SAPS supply both for customers and for DNSP's by utilising existing procedures.
- Retail competition would be retained and customers would have access to the competitive market with the ability to choose their preferred retailer and offer.
- In the future, if only a relatively small number of customers are deemed economically eligible for SAPS, keeping a simple model will avoid disproportionately high costs relative to the small number of SAPS customers.

Cons:

- The cost of generation in the NEM wholesale market is different to the cost of generation in a SAPS. Likewise the efficient usage times of a grid-connected customer will be different to a SAPS customer. Sending efficient, cost-reflective price signals to SAPS customers to incentivise efficient usage is either very difficult or unachievable under the NEM consistency model.
- It is possible that in the future technology costs will decrease to the point where it is more efficient to transition from a simple model to an independent SAPS framework. This will most likely be a complicated and costly process.

3.2 Integrated service delivery model

Pros:

- A tailored model will allow the design to be optimised for the specific circumstances of SAPS customers, leading to more efficient outcomes.
 - For example, the price a SAPS customer pays could be linked to the reserve capacity in the batteries. When reserves are high, prices are low and vice versa.
- In the future, if a large number of customers are deemed economically eligible for SAPS, the benefits of an optimised framework able to provide more efficient outcomes would outweigh the costs of designing an independent SAPS framework.
- If any issues come to light, updating or refining aspects of the SAPS regulatory framework may be easier as the SAPS regulations would be separate from the NEM rules and regulations.

Cons:

- Customer engagement would become more difficult due to the customer-facing changes and there is a risk that customers may not consent. After the system is installed and the price is set externally, it will not necessarily be apparent to customers what additional value a retailer is providing them.
- Retail competition will cease for SAPS customers, customers will lose access to the existing competitive market and may be forced to change retail offers. Different processes will need to be adopted

4 Consumer protections

ENA generally supports the positions reached by the AEMC with the application of consumer protections.

If customers do not have access to retail competition, then a form of price control which is appropriate to the chosen SAPS model and relevant jurisdiction is warranted.

The information provision requirements outlined as SAPS-specific consumer protections are likely to be included in the DNSP's customer engagement strategy. Gaining implicit consent from customers early in the SAPS customer engagement process is crucial for SAPS installation, operation and safety.

ENA agrees with the principle that DNSP-led SAPS customers should receive the same reliability levels that grid-connected customers receive. Early customer trials indicate that the reliability levels experienced by SAPS customers would be higher than if those customers were serviced by a grid connection due to these customers primarily located at the edge of the grid.

5 Transition to third party SAPS

ENA supports the AEMC's draft decision in relation to asset transfers and stranded assets, noting that AER oversight of the stranded asset process will provide some level of consistency and efficiency.

In our submission to the issues paper, ENA advocated for an efficiency pre condition to ensure that neither remaining grid-connected customers nor DNSP's would be disadvantaged as a result of customers transferring to a third party SAPS. Given that the AEMC's proposed asset transfer and stranded assets framework accounts for this in the form of commercial arrangements and compensation for efficiency losses, we can accept that no efficiency pre-condition is proposed.

ENA supports the view that a third party should obtain the consent of customers transitioning to a third party SAPS. Material differences in both price and reliability are a likely outcome for these customers and they should be fully aware of the consequences before being allowed to transition to a third party SAPS.